



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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WENDY L. WATANABE
AUDITOR-CONTROLLER

ADDRESS ALL CORRESPONDENCE TO:
COUNTYWIDE CONTRACT MONITORING DIV.
350 S. FIGUEROA ST., 8TH FLOOR
LOS ANGELES, CA 90071

May 10, 2012

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **FRIENDS RESEARCH INSTITUTE, INC. – A DEPARTMENT OF
PUBLIC HEALTH HIV/AIDS PREVENTION SERVICE CONTRACT
PROVIDER – FISCAL REVIEW**

We completed a fiscal review of the Friends Research Institute, Inc. (Friends or Agency). The County Department of Public Health (DPH) Division of HIV and STD Programs (DHSP) contracts with Friends, a non-profit organization, to provide HIV/AIDS health education and risk reduction counseling services, and HIV/AIDS testing services. Our review covered a sample of transactions from July 2010 through November 2011.

Our review was intended to determine whether the Agency spent Program funds in accordance with their County contract. We also evaluated the Agency's accounting records, internal controls, and compliance with the contract and other applicable guidelines.

At the time of our review, Friends had three cost-reimbursement contracts with DHSP. DHSP paid the Agency approximately \$1,351,000 from July 2010 through November 2011. The Agency provides services to individuals in the First, Second, and Third Supervisorial Districts.

Results of Review

Friends recorded and deposited DHSP payments timely, and maintained the required personnel records. However, Friends did not always comply with all of the County contract requirements. Specifically, Friends:

- Charged DHSP \$2,267 (\$1,135 + \$1,132) for expenditures that were not supported by the Agency's accounting records.

Friends' attached response indicates they will repay DPH \$1,135, and will credit the remaining \$1,132 on their April 2012 invoices. DHSP indicated that they will work with the Agency to ensure the remaining questioned costs are appropriately credited.

- Charged DHSP \$887 for an out-of-town conference that was not pre-approved by DHSP or explicitly included in the contract budget.

Friends' response indicates that they will repay DPH \$887.

- Did not allocate shared costs based on actual hours worked each day by program.

Friends' response indicates that they will start tracking their employees' hours for each program daily.

- Did not always review and approve bank reconciliations.

Friends' response indicates that they will ensure bank reconciliations are reviewed and approved by management.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with Friends and DHSP. The Agency's attached response indicates that they agree with our findings and recommendations. DHSP indicated they will work with Friends to ensure our recommendations are implemented.

We thank Friends for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

WLW:JLS:DC:AA

Attachment

- c: William T Fujioka, Chief Executive Officer
Jonathan E. Fielding, M.D., M.P.H., Director, Department of Public Health
Friends Research Institute, Inc.
Robert G. Rassp, Esq., Chairman, Board of Directors
Frank J. Vocci, Ph.D, President
Cathy Reback, Ph.D, Senior Research Scientist
Public Information Office
Audit Committee

**FRIENDS RESEARCH INSTITUTE, INC.
HIV/AIDS PREVENTION SERVICES
JULY 2010 TO NOVEMBER 2011**

CASH/REVENUE

Objective

Determine whether Friends Research Institute, Inc. (Friends or Agency) had adequate controls to ensure cash receipts and revenue were recorded in the Agency's financial records properly, cash receipts were deposited into the Agency's bank account timely, and bank account reconciliations were reviewed and approved by Agency management.

Verification

We interviewed the Agency's personnel, and reviewed their financial records and November 2011 bank reconciliations.

Results

Friends recorded revenue in their financial records properly, deposited the Department of Public Health (DPH) Division of HIV and STD Program (DHSP) payments into the Agency's bank account timely, and prepared bank reconciliations monthly. However, the bank reconciliations were not reviewed and approved by management.

Recommendation

1. Friends management ensure bank reconciliations are reviewed and approved by management.

COST ALLOCATION PLAN

Objective

Determine whether the Agency prepared its Cost Allocation Plan in compliance with the County contract, and used the Plan to allocate shared costs appropriately.

Verification

We reviewed Friends' Cost Allocation Plan, and a sample of shared costs the Agency incurred from August 2010 through June 2011.

Results

Friends' Cost Allocation Plan was prepared in compliance with the County contract. However, the Agency did not record the actual hours worked by each employee on each program on a daily basis as required by the County contract.

Recommendation

See Recommendation 5 below.

EXPENDITURES**Objective**

Determine whether expenditures charged to the DHSP program were allowable under the County contract, properly documented, and accurately billed.

Verification

We interviewed Agency personnel, and reviewed financial records for 20 non-payroll expenditures, totaling \$25,523, that the Agency charged to the DHSP Program from August 2010 through August 2011.

Results

Friends inappropriately charged DHSP \$887 for a conference that was not pre-approved by DHSP, or explicitly included in the contract budget.

Recommendation

2. Friends repay DPH \$887.

PAYROLL AND PERSONNEL**Objective**

Determine whether Friends charged payroll costs to the DHSP Program appropriately, and maintained personnel files as required.

Verification

We reviewed the Agency's financial records, and traced the payroll costs for six employees from August 2011, totaling \$18,806, to the Agency's payroll records and time reports. We also reviewed the personnel files for DHSP Program staff.

Results

Friends' accounting records did not support \$1,132 in salaries and employee benefits charged to the DHSP Program.

In addition, the Agency did not require staff to record the hours worked for each program on a daily basis as required by the County contract. Instead, the employees' timecards indicate the total hours worked on each program for the entire pay period.

Recommendations

Friends management:

- 3. Repay DPH \$1,132.**
- 4. Ensure that DHSP Program costs are supported by the Agency's accounting records.**
- 5. Ensure employees record the hours worked on each program on a daily basis.**

COST REPORTS**Objective**

Determine whether the Agency's Cost Reports reconciled to the accounting records.

Verification

We traced the Agency's July 2010 through July 2011 Cost Reports to their accounting records.

Results

Friends' Cost Reports did not reconcile to their accounting records. Specifically, the Agency's accounting records did not support \$1,135 in expenditures that were included in their Cost Reports.

Recommendations

Friends management:

- 6. Repay DHSP \$1,135.**
- 7. Ensure the Cost Reports reconcile to the Agency's Program accounting records.**



Friends Research Institute, Inc.

Research • Grants Administration • Education • Treatment

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April 11, 2012

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Wendy L. Watanabe
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500 W Temple Street, Room 525
Los Angeles, California 90012

RE: Friends Research Institute, Inc
Fiscal Review 2010 - 2011

Dear Ms. Watanabe:

Please find below our responses to the Fiscal Review conducted in January, 2012.

Recommendation 1: It is the policy of FRI to have bank reconciliations reviewed and approved by management. We will ensure this occurs going forward.

Recommendation 2: FRI will repay to DPH the \$887 for a conference that was not pre-approved by DHSP or explicitly included in the contract budget.

Recommendations 3 - 4: April 2012 invoices will reflect a reversal of the charges for personnel costs incurred prior to the start of the current contract period. FRI will ensure that all future billings reflect the period in which the costs were incurred.

Recommendation 5: FRI will implement daily tracking of time worked on each project for FCC staff.

Recommendations 6 - 7: FRI will repay to DPH \$1,135. Due to the late approval of Budget Modifications submitted to OAPP, revised Cost Reports were necessary to reflect FRI's actual expenditures. FRI attempted to submit revised cost reports in January, 2012, however the revised reports were not accepted; the contract period in question had closed.

Thank you for the opportunity to respond to this Fiscal Review.

Sincerely,

Jennifer Reyes
Sr. Grants Manager